

**EXECUTIVE SECRETARIAT**  
ROUTING SLIP

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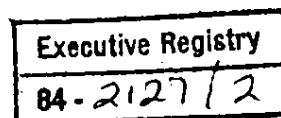
Remarks

Executive Secretary  
9/20/84  
Date



OFFICE OF THE SECRETARY OF THE TREASURY  
WASHINGTON, D.C. 20220

September 19, 1984



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(With Confidential Attachment)

MEMORANDUM FOR OVP  
STATE  
DEFENSE  
AGRICULTURE  
COMMERCE  
OMB  
CIA  
USTR  
NSC  
OPD  
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FED  
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EXIMBANK

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- MR. RAYMOND LETT  
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- MR. ALTON G. KEEL  
  
- MR. DENNIS WHITFIELD  
- MR. ROBERT KIMMITT  
- MR. LEHMAN LI  
- MR. WILLIAM A. NISKANEN  
- MR. EDWIN M. TRUMAN  
- MR. MARK L. EDELMAN  
- MR. WILLIAM H. DRAPER, III

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Subject Interagency Group on International Economic  
Policy (IG-IEP)

Attached is a paper from Assistant Secretary Mulford which  
provides an update on international debt issues.

Christopher Hicks  
Executive Secretary and  
Executive Assistant to the Secretary

Attachment

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ASSISTANT SECRETARY

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DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220  
September 19, 1984

MEMORANDUM FOR MEMBERS OF THE IG-INTERNATIONAL DEBT

From: David C. Mulford *[Signature]*

Subject: A Meeting of the IG

When we last met on September 6th, it was agreed that there would be another meeting this week primarily for a status report on Argentina as well as to discuss the results of the ministerial meeting of the Cartagena group at Mar del Plata, Argentina. I believe that not enough has happened to warrant us getting together now. Instead I am circulating an update on each event.

Regarding Argentina, no decisions have yet been made either on a letter of intent with the IMF or on interim credit arrangements with the banks. We are probably closer than before but in view of the rocky course of this negotiation, it would be rash to predict that we are there. Argentina will not be able, as we have known for some time, to bring interest on public sector debt current on September 30th without new bank credit, an highly unlikely outcome. The real issue is whether they will have made enough progress by the time the bank regulators meet at the end of October to affect the regulatory committee's decision on the classification of Argentine loans.

The Cartagena group has now stated publicly what was conveyed to us privately some time ago: the most important element in their program is to politicize the debt negotiations by asking creditor governments to participate. Treasury and other agencies with responsibilities in this area have rejected the proposal but have suggested putting debt on the agenda of the spring session of the Development Committee as an item for discussion. We are also considering a special meeting under the auspices of the IDB in early 1985. It would continue the discussion that began in the special session on debt during the IDB's 1984 annual meeting last March.

With respect to Argentina, I would propose another meeting in mid October which would be an appropriate moment to assess the situation vis-a-vis the Fund and the banks. If there are suggestions for other agenda items at that time, they would be welcome.

Attachments

- A. Argentina Update
- B. Second Cartagena Follow-up Meeting
- C. Cartagena Consensus Countries Issue Communique on Debt

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TAB A

UPDATE ON ARGENTINA  
RECENT ECONOMIC/FINANCIAL DEVELOPMENTS

Economic Situation

- o The domestic economy has become progressively more imbalanced.
  - °° On an annualized basis the monthly inflation rate in August stood at 1075%.
  - °° Regulated interest rates remain at negative real rates while free market rates are positive.
  - °° Anticipated reductions in the public sector deficit during 1984 appear increasingly problematical.
- o Despite a record trade surplus of \$2.8 billion for the first half of 1984, the external economy has also experienced deterioration.
  - °° The estimated 1984 current account deficit is \$2.5 billion, about the same as 1983.
  - °° Liquid official reserves may amount to about \$700 million. One hundred million is pledged to the Bank Advisory Committee as collateral for its March 30 advance.
  - °° Official gold reserves amount to \$1.4 billion at \$325/oz.

Relations with IMF

- o GOA authorities reported to Treasury on September 17 that "there was an IMF agreement" but Minister Grinspun would have to meet with Managing Director de Larosiére to discuss remaining issues before sealing an agreement.
  - °° The GOA officials, however, acknowledged that there still remained "several technical issues to resolve".
  - °° Remaining "technical issues" could be major obstacles preventing the IMF from quickly endorsing an agreement.
  - °° The IMF mission left Argentina on September 17 following nearly a month of negotiations.
  - °° The GOA hopes to reach an IMF agreement around the time of the Bank/Fund Annual Meeting or President Alfonsín's UNGA address.

Situation with Creditor Banks

- o The meeting with the Bank Advisory Committee on September 11-12 was unproductive.

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- °° The GOA had requested a 90-day rollover of the \$750 million on the bridging facility falling due on September 15 and reactivation of the \$1 billion in the commercial medium-term facility.
- °° The banks refused the GOA request in the absence of an agreement with the IMF and prior commitment to make a substantial payment on interest by end-September.
- °° The Bank Advisory Group decided to roll over the \$750 million on a daily basis until agreement has been reached with the IMF.
- °° Discussions on a new money facility (and the \$1 billion withheld in the medium-term facility) and rescheduling of 1982-84 public sector payments are not expected until after an IMF accord.
- °° The GOA needs nearly \$1 billion to bring interest due current on public sector debt on September 30.

Drafted by: OASIA/IDN  
9/17/84

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SECOND CARTAGENA FOLLOW-UP MEETING  
Mar del Plata, September 11-14, 1984

The second Cartagena follow-up meeting was held in Mar del Plata on September 11-14, 1984. The ministerial-level sessions, held on the final two days, produced a very moderately phrased declaration, called the Mar del Plata Communique. The communique called for a "direct political dialogue" in the first half of 1985, but did not mention a forum or refer to specific actions that the creditor governments should adopt. Our own information suggests that the eleven countries present in Mar del Plata may not have been unanimous in their support for a summit-style dialogue at this time. The successful conclusion of Mexico's negotiations with its commercial bank Advisory Committee, the delicate nature of Venezuela's continuing discussions with its bank creditors, and Brazil's own imminent rescheduling talks may have contributed to a diminishing of interest in this approach at this time.

Unlike the Consensus of Cartagena and the earlier Declaration of Quito, the Mar del Plata Communique did not call for specific actions by creditor governments in the areas of debt, trade, and finance. This is surprising, since reports of the first Cartagena follow-up meeting in Buenos Aires in August indicated that the countries had agreed to a study program geared at recommending specific solutions in each of these areas. In addition, President Betancur of Colombia had addressed a letter to the other ten presidents before the meeting, urging that analysis be intensified of such ideas as creation of an interest compensation window at the IMF, payment of "excess" interest in local currency, limiting total debt service to a fixed percentage of export earnings, expansion of the U.S. Generalized System of Preferences, and a new round of negotiations in GATT aimed at non-tariff barriers.

The lack of reference to specific actions in the Mar del Plata communique may suggest that the participants were unable to reconcile their varying interests. On the other hand, it could be that the Cartagena group is reserving its ammunition for the World Bank and IMF annual meetings, since the Mar del Plata communique refers to "international meetings to be held soon" and indicates that "the initiatives agreed upon will be placed before all pertinent forums..."

In addition, the Cartagena group faces the dilemma of how to maintain momentum in spite of a variety of positive developments such as: 1) the impact on Latin America of the economic recovery in the industrialized countries; 2) the dramatic progress that Mexico made with its commercial bank creditors; and 3) President Reagan's decision not to apply restraints to U.S. copper imports. The participants at Mar del Plata were in the awkward position of deploring the loss of sense of urgency among the industrialized countries, while having to recognize to some extent these positive developments.

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Another aspect of the Latins' dilemma is that while they want to move forward quickly, they suspect that a dialogue with creditor governments will accomplish little until after the U.S. presidential election. Thus, the communique's call for a direct political dialogue was open ended, mentioning "the first half of 1985" as the time frame. This lack of specificity undercuts the Latins' evident desire to recreate a sense of urgency.

The lack of any suggestion for the forum for dialogue could be interpreted either as a waning of whatever enthusiasm the Latins may have had when they met in Cartagena in June for the Development Committee or as uncertainty about how discussions would be organized, given the unfavorable response of the creditor governments to the Cartagena group's approaches concerning a debtor/creditor summit.

Another follow-up consultative meeting of the Cartagena group will be held in Santo Domingo in the first quarter of 1985.

Treasury, IDN  
September 18, 1984

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TAB C

(SEE 075 OF 14 SEP)

(HEREWITH RERUN 027 OF 15 SEP FOR TREASURY PER YOUR REQUEST)

CARTAGENA CONSENSUS COUNTRIES ISSUE COMMUNIQUE ON DEBT

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(EXCERPTS) MAR DEL PLATA, 14 SEP (NA) -- THE 11 COUNTRIES OF THE CONSENSUS OF CARTAGENA TODAY STATED THAT "A DIRECT POLITICAL DIALOGUE" WITH THE INDUSTRIALIZED COUNTRIES "IS NECESSARY," AND THAT IT "SHOULD BE HELD DURING THE FIRST HALF OF 1985."

IN A JOINT DECLARATION ENTITLED THE MAR DEL PLATA COMMUNIQUE, WHICH WAS READ BY ARGENTINE FOREIGN MINISTER DANTE CAPUTO AT THE CLOSING OF THE 2-DAY MEETING HERE, THE 11 COUNTRIES RATIFIED THE VALIDITY OF THE CONSENSUS OF CARTAGENA AND EXPRESSED "CONCERN OVER THE LOSS OF THE SENSE OF URGENCY AMONG THE INDUSTRIALIZED COUNTRIES" TO SOLVE THE FOREIGN DEBT PROBLEM.

THE TEXT OF THE DECLARATION READS AS FOLLOWS:

"THE FOREIGN AND ECONOMY MINISTERS OF THE SIGNATORY COUNTRIES OF THE CONSENSUS OF CARTAGENA MET IN MAR DEL PLATA ON 13 AND 14 SEPTEMBER 1984: .

"1. THEY AGREED THAT ALTHOUGH A SEVERE DESTABILIZATION OF THE INTERNATIONAL FINANCIAL SYSTEM HAS BEEN PREVENTED SO FAR, THE PROFOUND FOREIGN DEBT CRISIS PREVAILS.

"THEY EXPRESSED CONCERN OVER THE LOSS OF THE SENSE OF URGENCY AMONG THE INDUSTRIALIZED COUNTRIES REGARDING THE CONSENSUS OF CARTAGENA RESOLUTION.

"IN VIEW OF THESE EVENTS, WHICH MUST BE LOOKED AT FROM A BROAD POLITICAL STANDPOINT, THEY RATIFIED THE IMPLEMENTATION OF THE CONSENSUS OF CARTAGENA, REITERATED THEIR SOLIDARITY CONCERNING THE LATIN AMERICAN FOREIGN DEBT PROBLEM, AND REAFFIRMED THEIR DETERMINATION TO CONTINUE THE CONSULTATIONS AS OFTEN AS THEY MAY BE NECESSARY, WITHIN THE FRAMEWORK OF THE CONSULTATION AND FOLLOW-UP MECHANISMS."



"2. THEY NOTED THAT THE RISE IN INTEREST RATES THAT OCCURRED SOON AFTER THE CARTAGENA MEETING ENDED AGGRAVATED THE NEGATIVE CONSEQUENCES OF THEIR ALREADY EXCESSIVELY HIGH LEVEL. ALTHOUGH THERE HAVE BEEN NO MORE INCREASES SINCE JUNE, THE STABILIZATION OF THOSE RATES OF INTEREST AT THE PRESENT LEVEL, WHICH SURPASSES HISTORICAL LEVELS, HINDERS THE IMPLEMENTATION OF ECONOMIC PROJECTS AND KEEPS ALIVE FOREIGN AND DOMESTIC INDEBTEDNESS PROBLEMS THAT MAKE IMPOSSIBLE THE ADEQUATE MANAGEMENT OF THE REGIONS DEVELOPMENT POLICIES. THIS POINTS UP THE URGENT NEED FOR THE INTERNATIONAL COMMUNITY, THE GOVERNMENTS OF THE INDUSTRIALIZED COUNTRIES ESPECIALLY, TO TAKE ACTION IN ORDER TO BRING THE REAL INTEREST RATES DOWN TO REASONABLE LEVELS.

"3. THEY STATED THAT THE ECONOMIC RECOVERY IS STILL CENTERED IN SOME DEVELOPED COUNTRIES AND THAT RESTRICTIVE MEASURES ARE STILL BEING IMPOSED IN TRADE AND FINANCIAL SECTORS, ADVERSELY AFFECTING THE DEVELOPMENT PROSPECTS OF MOST COUNTRIES IN THE INTERNATIONAL COMMUNITY.

"4. THEY OBSERVED WITH INTEREST THAT DURING A RECENT NEGOTIATION OVER THE RESTRUCTURING OF A DEBT, SOME OF THE PRINCIPLES ON MATTERS OF TERMS, COSTS, AND CONDITIONS ANNOUNCED BY THE CONSENSUS OF CARTAGENA WERE PROMOTED.

"HOWEVER, THEY ASSERTED THAT IT IS VERY IMPORTANT TO CONTINUE THE SEARCH FOR PERMANENT SOLUTIONS BY DISCUSSING THE BROADER ASPECTS OF THE FOREIGN DEBT PROBLEM TO FULLY SATISFY THE OBJECTIVES ESTABLISHED BY THE CONSENSUS OF CARTAGENA AND TO COMPLY WITH THE SACRIFICES BEING MADE BY THE DEBTOR COUNTRIES.

"5. THEY ASSERTED THAT, EXCEPT FOR SPECIAL DECISIONS, PROTECTIONIST TENDENCIES AND OTHER RESTRICTIVE MEASURES HAVE INTENSIFIED. THIS IS INCREASING THE ADVERSE EFFECTS THAT THESE ACTIONS EXERT OVER FOREIGN CURRENCY INCOME FROM EXPORTS, THE ABILITY TO IMPORT, THE POSSIBILITY FOR SERVICING THE FOREIGN DEBT, AND THE PROSPECTS OF THE DEVELOPMENT PROGRAMS OF THE COUNTRIES OF THE AREA. THEY ALSO NOTED THAT THE SHORT-TERM COMMERCIAL CREDITS HAVE NOT BEEN RESUMED AT THE ADEQUATE LEVELS.

"6. THEY REITERATED THEIR CONCERN OVER THE FACT THAT THE ADJUSTMENT EFFORTS MADE BY ONE SIDE HAVE NOT MATCHED THOSE MADE BY THE OTHER SIDE. THIS IS NOT COMPATIBLE WITH THE FACT THAT BOTH DEBTORS AND CREDITORS SHARE THE RESPONSIBILITY IN THE SEARCH FOR SOLUTIONS TO THE DEBT PROBLEM.

"7. THEY REAFFIRMED THE VALIDITY OF DIALOGUE AS A FACTOR FOR UNDERSTANDING. ON THE SPECIFIC ISSUE OF INDEBTEDNESS, THEY ASSERTED THAT A DIRECT POLITICAL DIALOGUE IS NECESSARY TO FULLY UNDERSTAND THE PROBLEM SO THE PARTIES INVOLVED CAN REACH AN AGREEMENT. THEREFORE, THE USE OF DIALOGUE TO PREVENT MORE SERIOUS SITUATIONS WITH HARMFUL EFFECTS FOR THE ENTIRE INTERNATIONAL COMMUNITY CANNOT BE POSTPONED.

"8. TAKING INTO ACCOUNT THE PREVAILING SERIOUS SITUATION THAT HAS BEEN DESCRIBED, AND CONSIDERING PARAGRAPH 23 OF THE CONSENSUS OF CARTAGENA, THEY CONSIDERED IT IMPERATIVE TO INVITE THE GOVERNMENTS OF THE INDUSTRIALIZED NATIONS TO A DIRECT POLITICAL DIALOGUE, WHICH SHOULD BE HELD DURING THE FIRST HALF OF 1985, FOLLOWING THE NECESSARY CONSULTATIONS MADE IN DUE COURSE WITH THE GOVERNMENTS OF THOSE COUNTRIES.

"9. THEY REPORTED THE AGREEMENT ACHIEVED BY THEIR COUNTRIES REGARDING THE FORTHCOMING MEETINGS SCHEDULED AT REGIONAL AND WORLD LEVELS. THE INITIATIVES AGREED UPON, AS AN EXPRESSION OF THE CONSENSUS OF CARTAGENA, WILL BE SUBMITTED IN ALL APPROPRIATE FORUMS.

"10. THE NEXT MEETING OF THE CONSULTATION AND FOLLOW-UP MECHANISM WILL BE HELD IN THE DOMINICAN REPUBLIC, DURING THE FIRST QUARTER OF 1985, OR WHENEVER SOME SPECIAL EVENT DEMANDS."

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